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C O N F I D E N T I A L SECTION 01 OF 02 HAVANA 000023

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E.O. 12958: DECL: 01/08/2018
TAGS: [AMGT](#) [CU](#) [ECON](#) [PGOV](#) [PINR](#) [PREL](#)
SUBJECT: CUBA: UNDER-THE-TABLE SALARIES TO BE TAXED

REF: HAVANA 1153

Classified By: COM: Michael E. Parmly: For reasons 1.4 b/d

11. (SBU) SUMMARY: Resolution 277, dated December 13, 2007, from the Ministry of Finance and Prices mandates that previously undeclared income from Cuban employees of foreign entities be taxed. While technically the tax will be levied directly on the workers, companies will nonetheless be taxed indirectly, sending a negative signal to the foreign business community as well as to potential new investors in Cuba. The tax also applies to employees of foreign missions, but without a requirement that those missions report salaries. End Summary.

12. (SBU) Reftel reported that beginning in early January, 2008, the GOC would tax previously undeclared salaries paid to Cubans employed by foreign companies. Thus far, the GOC still has not officially made public anything on the matter, but many Cuban workers -- as well as the press -- are talking about Resolution 277, dated December 13, 2007, from the Ministry of Finance and Prices, which outlines how the tax will work. While the resolution is still an internal Ministry document, it has been widely circulated among Cubans who work in entities which will be affected.

"Gratifications"

13. (SBU) Undeclared salaries, referred to in the resolution as "gratifications," are defined as "any money received in addition to and independent of a salary." Per Reftel, most foreign entities in Cuba, including USINT and other foreign diplomatic missions, carry out this practice. In ordinary practice, these are salaries paid directly to an employee in Cuban convertible pesos (CUCs). Officially, these employees receive only a small portion of the CUC-denominated salary that is paid directly to the Cuban government entity CUBALSE. The employee portion is paid in ordinary Cuban pesos, which are worth 24 times less than the CUC.

Who is affected?

13. (U) According to the resolution, those affected include Cubans working in an office or branch of foreign: a)

companies; b) banks and financial companies; c) airlines; d) travel agencies; e) other representations of foreign entities accredited in Cuba; f) press offices and other foreign media outlets; g) diplomatic missions and representative offices of international organizations; h) other locations that employ foreigners accredited in Cuba.

Requirements

14. (SBU) Cubans working for the above employers will have to:

-- Register as a tax payer at the nearest municipal tax office within 60 days after January 3, 2008.

-- Pay a partial amount of the tax every three months using the tax bracket applied to the few "cuentapropistas" (private entrepreneurs) left in Cuba. Resolution 277 essentially gives these workers the tax treatment given to cuentapropistas under an older resolution from 1995, Resolution 24/95, which includes tax brackets going from 10% to 50%.

-- Settle final payment at the end of the year -- within 60 days after each December 31.

-- Regardless of the currency paid by the employer, tax payment is to be made in Cuban convertible pesos and at the exchange rate of the day in which the tax is paid.

-- Cubans working for a joint venture controlled by the Cuban military, such as Gaviota hotels, must register with the military's Tax Administration Office, charged with collecting and accounting for tax revenues for the military's

HAVANA 00000023 002 OF 002

enterprises.

15. (U) Within their business accounts, employers -- with the exception of employers under g and h from paragraph 3 above -- must account separately for the amounts paid as "gratifications." It should be noted that diplomatic missions are exempt from this requirement. In addition, employers must reconcile their Cuban employees with the National Tax Administration Office.

Effect on USINT employees

16. (C) USINT normally pays CUBALSE, the GOC employment agency for all diplomatic missions, an average annual fee per employee of CUC 3500. In turn, USINT Cuban employees receive an average annual salary from CUBALSE of CUC 120. This "vanishing act" of Cubans' salaries best explains the reason for USINT's -- and all other foreign employers -- undeclared "gratificaciones" payments. Mainly because of perks such as the "gratificaciones," Cubans working for foreigners have long been perceived by the GOC -- and indeed by many other less fortunate Cubans who do not get a complement to their government salary -- as spoiled and over-privileged.

17. (C) According to USINT Budget and Finance, about 85% of the 264 USINT Cuban employees will fall under the 15% tax bracket, while only a few will fall under either the 10% or 20% bracket. The average annual tax per employee would amount to CUC 855 (the top paid employee would face a tax bill of CUC 2,175, while the lowest paid would pay CUC 390). USINT employees would pay a total annual tax of CUC 225,700. CUBALSE claims to employ 2,500 employees throughout the diplomatic community. Assuming USINT's average wage is representative of the rest of the diplomatic corps, the GOC could collect as much as CUC 2,137,500 annually from Cubans working for the diplomatic corps alone. ACOREC, the GOC employment agency for foreign companies, obviously stands to collect a considerably more.

Comments:

18. (C) It is still unclear what the real intent of the measure will be or what its effect will be. Clearly there is a need for hard currency on the part of the GOC and this measure provides yet another source for it. However, the GOC may also want to minimize the "perks" of working for foreign companies, as "gratificaciones" are clearly incentives that make those jobs much more attractive than government jobs, which incidentally, are losing more and more competent workers to foreign companies. While the tax will be levied directly on the workers, most companies will likely assume the payment of the tax for their workers. If companies elect not to assume the tax burden, they will nonetheless be taxed indirectly through decreased worker productivity. Making business in Cuba even more costly and burdensome than it already is will certainly make foreign businesses think twice about expanding their operations in Cuba and will send a negative message to potential new investors.

19. (C) For workers, who for the first time will have to pay taxes on income that had never been taxed before, the resolution will be a hard blow. They will essentially endure a pay cut for performing the same amount of work. This will surely hurt worker performance and by extension the company's bottom line. While the Cuban workers earning these additional salaries are a minority, they are a minority with some clout. For one thing, they purchase goods and services from the government using their additional salaries. More importantly, they have been privileged by the regime and being so privileged may be even more resentful of an action that hurts them very directly -- not the way to build support among those whose special talents may be needed in a transition.
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